



FRED WILLIAMSON & ASSOCIATES, INC.
Telecommunications Management Services

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Wednesday January 20th, 2016

**RE: Notice of Written *Ex Parte*
Connect America Fund
WC Docket No. 10-90**

Dear Ms. Dortch:

Please find attached below the ExParte from Fred Williamson & Associates, Inc. (FWA) regarding actual costs of providing Broadband services in rural areas.

In accordance with FCC rules, this letter and its attachment are being filed electronically in the docket identified above.

Sincerely,

Tom Karalis
Senior Associate / Partner
Fred Williamson & Associates, Inc.

CC: FCC Chairman Tom Wheeler
Commissioner Mignon Clyburn
Commissioner Jessica Rosenworcel
Commissioner Ajit Pai
Commissioner Michael O'Rielly
WCB Deputy Bureau Chief Carol Matthey

**FWA
121 East College Street – Broken Arrow, OK – 74012**

Ex Parte

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
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Fred Williamson & Associates, Inc. (FWA) ExParte

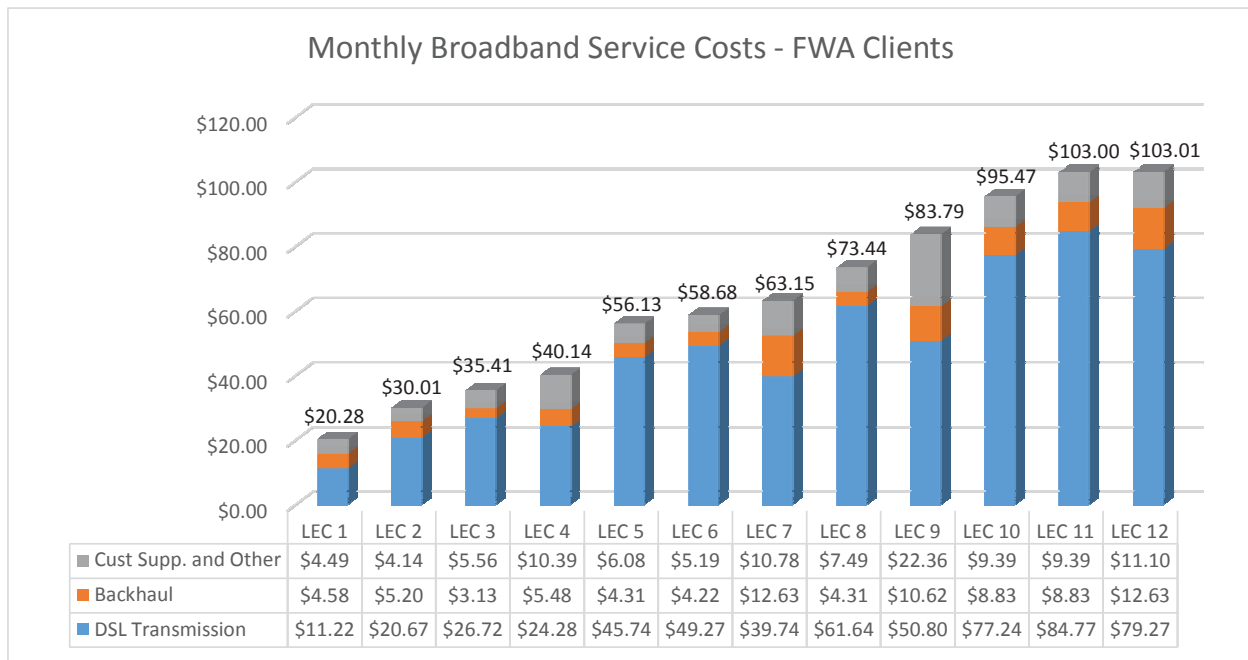
Fred Williamson & Associates (FWA) is a consulting firm that provides regulatory compliance and financial analysis services on behalf of several rural telecommunications providers subject to Rate of Return regulation. The majority of the companies operate in Kansas and Oklahoma. FWA's clients serve rural areas with low population densities and high costs. FWA submits this letter for inclusion in the record of the above-referenced proceeding to address the actual costs of providing Broadband services. These costs represent both network costs and customer support expenses attributable to Broadband services. The costs of jointly provisioned (with voice) subscriber loops are excluded. Recovery of these costs is generally from the retail rates assessed for Broadband services and, in most cases, settlements from the NECA Pool. The Commission should be aware of the significance of these costs and their impact on the affordability of rates for Broadband services. Without appropriate mechanisms for recovery of the high costs of providing Broadband services in rural areas, associated rates may become unaffordable and the rural provider will have difficulty sustaining rates that are below the FCC's established benchmarks.

FWA has gathered costs associated with Broadband services for the majority of its clients. The costs were grouped into the three categories shown below:

1. **DSL Network Transmission Costs for the Regulated Service Area** – This contains the costs of central office transmission equipment, cable facilities (primarily transport), support facilities and expenses (including overheads) that are assignable or allocable to DSL transmission services. These costs are necessary to provide transmission of Broadband service from the Internet Service Provider's (ISP) connection point to the Broadband customer. FWA's clients provide almost all of their Broadband services over jointly (with voice) provisioned loops, and, per the FCC Rules, a significant portion of loop costs aren't assigned to Broadband services. The DSL Network transmission costs are part of regulated operations and the majority of FWA clients recover them through NECA tariff rates assessed to affiliated ISP providers for DSL services and settlements from the NECA Pool. For companies that aren't in the NECA Pool for DSL services, these costs are solely recovered from wholesale rates assessed for DSL transmission services to affiliated ISP providers. For most FWA clients, the wholesale rates assessed and reported to the NECA Pool are less than the actual costs.
2. **Backhaul to the Internet** – This represents the costs of transmitting Broadband/Internet services to a point of connection with the World Wide Web. These facilities often span well beyond the rural LEC's service area and a significant amount of the transmission must be procured from third party network providers. These costs increase as more bandwidth becomes necessary to provide Broadband customers with quality and higher capacity services.

3. **Customer Support and Other Costs** – This category includes Internet service related costs such as ISP services (EMAIL, Support Desk, Help Line, etc.), customer support, administrative and billing costs.

The chart below summarizes the above costs.



As shown in the chart, current Broadband service costs per customer range from approximately \$20.00 to \$103.00. The lower costs per customer are primarily due to the existence of higher population densities and larger numbers of customers in the service area. The majority of FWA clients' costs for Broadband services exceed \$50.00 per month. Of importance, is these costs don't include a significant portion of the subscriber loop costs. Thus, as data only Broadband services become more prevalent, rural LECs will have to recover the costs of the loop exclusively from Broadband services and universal service mechanisms.

Currently, FWA's clients recover a significant portion of the shared loop costs from Federal High Cost Loop Support, Interstate Common Line Support, Subscriber Line Charges, Intrastate services and in some cases Intrastate Universal Service funds.

The FCC is in the process of reforming federal USF mechanisms to include loop costs attributable to data only Broadband services. Based on information the FCC has provided in the ACAM modeling process, a benchmark of \$52.50 is the potential threshold for determining high cost support for Broadband services. It is FWA's understanding the election of the model-based support will be voluntary. Most of FWA's clients will likely have future support determined by the Rate-of-Return mechanism. FWA's understanding is that Industry and FCC discussions regarding the support for data only Broadband costs have tentatively targeted recovery of a portion of the monthly costs per Broadband loop that are above \$40.00. Nevertheless, as LECs' services evolve to data-only Broadband, the average costs shown above will increase by the amount of loop costs assigned to such services and not recovered through universal service funding mechanisms. Further, funding determined per the ACAM or the Rate-of-Return based mechanism are likely to be restricted based on the existence of unsubsidized competitors and overall budget caps. It is highly probable the ACAM will not provide sufficient support to enable the recovery of actual costs for several of FWA's clients. The Rate-of-Return based mechanism under development only includes funding of loop costs and may also be subject to cost restrictions. The model that FWA has reviewed includes limitations for operating expenses, capital expenditures and overall budget constraints. The reformed support mechanisms will likely not provide recovery of the significant Broadband service costs shown above.

FWA's clients offer affordable tiers of Broadband services. For lower speeds (1Mbps to 6Mbps), which most customers prescribe, monthly rates range from \$24.95 to \$39.95. For the highest speeds available (10Mbps to 1Gbps) monthly rates generally range from \$69.95 to \$199.00. The penetration rates for the higher speed services are lower as customers typically prefer the affordability of the lower speed rates. Affordable rates have been made possible through the recovery of loop costs through universal service support and recovery of traffic-sensitive costs from the NECA Pooling process. If future mechanisms fail to provide sufficient cost recovery, rates for Broadband services in most of FWA's clients' extremely rural areas must increase.

The above information substantiates that:

1. Rural LECs are going to have to cover significant costs beyond what the FCC is considering for determination of Broadband universal service support mechanisms.
2. The average costs of Broadband services for several of FWA clients will likely exceed the reasonable comparability benchmarks for Broadband services, especially after loop costs for data only Broadband services must be recovered from the associated rates. In the Public Notice released on April 16, 2015 by the Wireline Competition Bureau, these benchmarks for 10/1 Mbps range from \$71.40 to \$77.80.¹
3. Rural LECS incur significant backhaul and customer support costs to provide Broadband services in areas or census blocks that may be ineligible for support (from ACAM or ROR mechanism) but are generally shared across the study area and customer base.

¹ WIRELINE COMPETITION BUREAU Public Notice announcing Results of 2015 Urban Rate Survey for Fixed Voice and Broadband Services, released April 16th, 2015.

4. The NECA DSL Pool has been instrumental for most of FWA's clients in the recovery of DSL transmission costs and in maintaining affordable rates for Broadband services.
5. USF support may provide some cost recovery, but still may not be sufficient to enable RLECs to recover the costs of providing Broadband services. Rural LECs will have difficulty sustaining affordable rates for Broadband services and may face adverse financial conditions that will adversely impact the LEC's ability to provide Broadband services.

The FCC should seriously consider this information in formulating revised rules governing support mechanisms for the maintenance of affordable Broadband rates in rural areas. It is imperative that FWA's clients and other rural LECs have access to predictable and sufficient support so that they may provide Broadband services at affordable rates.

Sincerely,

Tim Morrissey
President, FWA, Inc.